

# **A POLICY ANALYSIS TO TRANSLATE IPSAS INTO NATIONAL STANDARDS: A COMPARISON BETWEEN SPAIN AND PORTUGAL**

Running title: TRANSLATING IPSAS INTO NATIONAL STANDARDS

## **ABSTRACT**

The purpose of this paper is to provide insights about the process of adaptation of countries' accounting standards to the International Public Sector Accounting Standards (IPSAS). Using a comparative-international perspective between Portugal and Spain, the paper relies on the concept of «translation», developed under the Actor-Network Theory, to understand how the IPSAS became an obligatory passage point and its implementation become a public policy introduced in the public sector accounting reforms in these countries, and what have been the main drivers and actors in the process. It contributes to showing how, in practice, countries are mobilized and enrol in the IPSAS adoption.

**Keywords:** public sector accounting; actor network theory; translation; standard-setters; comparative analysis; policy documents; questionnaires.

## **Introduction**

The last decades have been fruitful in reforms in public sector accounting across the world, namely moving from cash-based to accrual-based regimes. In this process of bringing public sector accounting close to business accounting, International Public Sector Accounting Standards (IPSAS) have been developed and adopted in several countries. In the context of the EU, public sector accounting harmonisation among Member States is currently being considered, namely via the development of European Public Sector Accounting Standards (EPSAS), which will consider IPSAS as a reference. Therefore, the implementation of IPSAS (and the future EPSAS) have been

considered by governments worldwide, as a policy possible to be adopted in the process of reforming the public sector accounting national systems.

IPSAS are understood to be, among other things, important in enabling more informative and transparent financial reporting of public sector entities and governments (European Commission 2013). Moreover, they are expected to approximate public sector accounting and national accounts, hence allowing for more reliable information for the monitoring of fiscal discipline (Jorge, Jesus and Laureano 2016). In the end, it seems that an IPSAS network has been created and that they are becoming an obligatory passage point (Callon 1986) for reforming public sector accounting in many countries, as in the cases of Spain and Portugal.

The Iberian countries, after using accrual accounting in the public sector for more than twenty years (Spain from the mid-1980s and Portugal from the 1990s), have acknowledged the need to embark on an international harmonization process adopting IPSAS, particularly after the adoption of IFRS in the business sector (Spain from 2008 and Portugal from 2010), which was creating some difficulties for consolidated accounts.

Spain issued the Chart of Accounts for the Public Sector through the Order EHA/1037/2010, which is adapted to IPSAS; Portugal approved the new System of Accounting Standards for Public Administrations by the Decree-Law 192/2015, and started implementing it in January 2018.

The objective of this paper is to understand when and why IPSAS became an obligatory passage point for public sector accounting reforms worldwide. Using the illustrative cases of Spain and Portugal in a comparative-international perspective, the paper analyses what have been the main drivers and how the process has been occurring.

The concept of «translation», developed under the Actor-Network Theory (Callon, Law and Rip 1986), was adopted to help understanding how and why organisations and other actors interact and how this interaction could have an impact on the choice of public sector accounting policies.

The adoption of IPSAS is currently on the political agendas of many countries, including those in the EU, so analysing this problem in early adopters can be useful for constructing a learning process and a reference-point for other countries.

One thing both countries have in common is that public sector accounting standards are contained in legislation that is approved by the Ministry of Finance. This is an important difference with respect to other countries where a ‘common law’ tradition represents a strong influence on the accounting profession in the setting of accounting standards (Montesinos 1998). So, one important remark is that in both countries a central role in this reform has been assumed by the national standard-setters, as accounting policy-makers, for public sector accounting. The translation has become effective by the legitimisation of IPSAS in both countries. Having considered that, it makes sense to develop a comparative study between these countries with many similarities also in terms of public administration culture. Regarding the public sector accounting system, the different paths of the two countries makes it interesting to compare both experiences, expecting to derive lessons to be learned to other ‘IPSAS beginner’ countries.

Henceforth, the paper is organised as follows. The next section introduces the theoretical framework, namely referring to Actor-Network Theory. Then a literature review dealing with the IPSAS network in the international setting is put forth. Afterwards, the empirical study is presented, firstly addressing methodological issues, then broadly explaining how the process of adapting the existent public sector

accounting system to IPSAS has happened, both in Spain and in Portugal, and, finally, presenting and discussing the main findings. Some concluding remarks are presented in final section.

### **Theoretical Framework**

One of the theories used in the literature to explain innovation or reforms, both in organisations and in science, is the Actor-Network Theory (ANT). It was developed by the sociologists Callon, Latour and Law (Callon 1980, 1986; Callon and Latour 1981; Callon, Law and Rip 1986), and it argues that ‘knowledge’ may be seen as a product or an effect of a network of heterogeneous materials (Law 1992). It describes how networks of homogeneous actors, both human and non-human, form alliances and involve other actors to strengthen such alliances, using persuasive language to interact and influence other actors in the network.

Central to ANT is the sociology of “translation”, defined by Callon (1986) as the mechanism by which the social and natural worlds progressively take form. The result is a situation in which certain entities control others. Understanding what sociologists generally call ‘power relationships’, means describing the way in which actors are defined, associated and simultaneously obliged to remain faithful to their alliances. This author identified four moments of “translation”, which constitute the different phases of a general process during which the identity of actors, the possibility of interaction and the margins of action are negotiated and delimited (Callon 1986):

- *The problematization or how to become indispensable.* At this stage, the problem that needs to be solved is defined and the actors are identified, establishing their identities and the links between them. During problematization, the primary actor defines the ‘obligatory passage point’ (OPP) between the other actors and the network, making it indispensable.

- *Interessement* is the group of actions by which the primary actor attempts to impose and stabilise the identity of the other actors, so that they accept the elements defined during problematization.
- *Enrolment* is the definition and coordination of the roles. It is the description of the groups of multilateral negotiations, trials of strength and tricks accompanying interessement.
- *Mobilisation of allies*, in which the delegate actors in the network represent the masses and actively support the enrolment of other actors.

ANT has been used by Mennicken (2008) in the area of international audit standards. It seems also useful to explain management accounting adoption (O'Connell, Ciccotosto and De Lange 2014) or performance measurement systems (Arnaboldi and Azzone 2010). Justesen and Mouritsen (2011) highlight that ANT supports that accounting reforms are never merely diffused or adopted; they are “translated” and, at the same time, they are enrolled in an actor-network that reconfigures the interest of other actors. When the reforms emerge on the regulatory agenda, they result in members participating in the process (who may act as carriers of ideas), as well as in documents and reports, that can influence the regulatory debate considering the circumstances in which regulation takes place. Becker, Jagalla and Skærbæk (2014) used ANT to explain the change of accounting regime in two German States, evidencing that several intersegment devices have been used to enrol the accountants in accrual accounting and budgeting.

This paper analyses the public policy of adopting the IPSAS as public sector accounting national policy, considering that the concept of “translation” can be used to explain this public policy adopted by many governments around the world, and, in particular, in the case of Spain and Portugal. The next section presents an attempt to

reconstruct how the IPSAS network has been built in the international arena, while afterwards, the compared cases of Spain and Portugal are used as examples to illustrate when and how countries may enrol into this network.

In particular, ANT will be used to explain the network around IPSAS in the international field and why such external influences are part of the explanation behind the adoption or diffusion of new accounting technologies (Justesen and Mouritsen 2011), in Spain and Portugal.

### **The IPSAS Network**

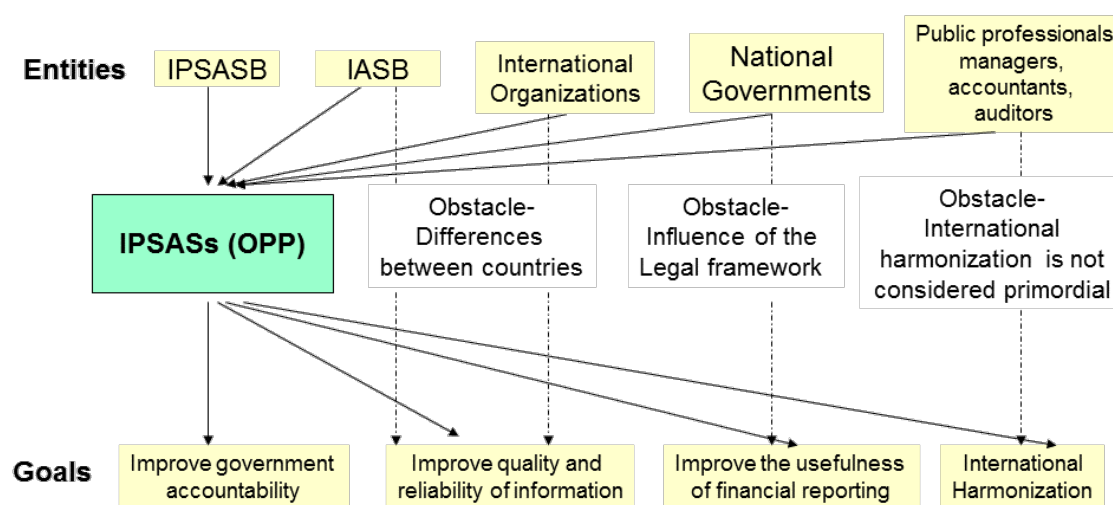
The IPSAS – issued by the International Public Sector Accounting Standards Board (IPSASB), and based upon IFRS – aim to enhance the quality and comparability of financial statements around the world. However, neither the Board nor the accounting profession has the power to require compliance with them. Moreover, IPSAS do not override the regulations of general purpose financial statements in a particular jurisdiction. Each regulatory body (accounting policy-maker) has to decide about their adoption, while the IPSASB strongly encourages their adoption and the harmonization of national requirements with them. IPSAS have played an important role in public sector accounting reform processes worldwide (Christiaens, Reyniers and Rollé 2010; Christiaens et al. 2015; Adhikari and Mellemvik 2010; Jensen and Smith 2013) and there is an effective network around them. In the following paragraphs, the paper tries to analyse how this network has been created, under the theoretical lens of ANT.

### The problematization

When the IPSASB started the process of issuing IPSAS, the goals were defined by a global perspective, so that they would not only be a vehicle for the harmonisation of public sector accounting between countries, but also a useful tool to improve governmental accountability, the quality and reliability of information, and ultimately

the usefulness of financial reporting (IPSASB 2018a). The characteristics of the standards based on IFRS were another important issue that give predominance to IPSAS. The main actor, the IPSASB, defined implicitly who could be the other actors in the process, such as international organisations, national governments (including the standard-setters), public sector officials and managers, accountants or auditors. Figure 1 summarises this phase.

**Figure 1. The actors in the process of problematisation**



Nevertheless, during this stage, some obstacles emerged, such as differences in administrative structures and legal systems.

### Interessement

According to Callon (1986), interessement is the persuasion by the principal actor of other actors to be conscious of the necessity of a change. In this respect, the IPSASB has developed an active policy targeting national governments and international institutions to achieve real Government Generally Accepted Accounting Practices (GGAAP) and IPSAS identification. For example, the IPSASB published standards but also studies and research reports in order to interest many actors in public sector accounting reforms. Many of these documents recommended the adoption of the accrual

criteria for financial statements and the necessity of adopting modern accounting systems in order to increase accountability of public sector entities.

The IPSASB has also encouraged countries to adapt the international standards. A key issue of the IPSASB strategy for this encouragement is the converging of the IPSAS with IFRS issued by the IASB. Another persuasive factor is that big public administration audit and consultancy firms have most of their technical, organisational and cultural background in the business enterprises field. A consequence of this fact is that these firms tend to adhere more clearly to business accounting standards as the basic reference and framework for public sector entities<sup>1</sup>.

In the process of persuading countries to adopt the international standards, IPSASB has underlined that ‘the adoption of IPSAS by governments will improve both the quality and comparability of financial information reported by public sector entities around the world’ (IPSASB 2018a).

Moreover, the IPSASB has translated IPSAS into many languages, such as Brazilian-Portuguese, Spanish and French, making them to be understood by potential adopters.

Finally, the IPSASB cooperates to the greatest possible degree, with national standard-setters in preparing and issuing standards, with a view to sharing resources, minimising duplication of efforts and reaching consensus and convergence in standards at an early stage in their development (IPSASB 2018b). Moreover, some national government institutions are represented in the Board.

### Enrolment

The enrolment of IPSAS started when many international organizations decided to adopt them. The Organisation for Economic Cooperation and Development (OECD)

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<sup>1</sup> Christensen and Skaerbaek (2010) demonstrate that consultancy outputs (such as consultancy project reports, seminars, briefings and other similar), are part of practices to cultivate social conflict in the purification of accounting technologies.



published financial statements according to the IPSAS in 2000. This was the first organisation, soon to be followed by the European Commission, that decided on the reform of its accounting system in 1999, later deciding to adopt IPSAS, and the financial statements of 2005 were based on IPSAS (European Commission 2008). The North Atlantic Treaty Organization (NATO) and the Council of Europe have also adopted IPSAS. Recently, the United Nations (UN) has issued a mandate specifying that all agencies should become IPSAS-compliant, arguing that Donors and Member-Nations have requested compliance. Consequently, UN organizations, such as the Food and Agriculture Organization, are adopting them (United Nations 2011). The IMF and World Bank have adopted IPSAS as well (World Bank 2004).

The adoption of IPSAS by international financial, economic and political institutions means that they have become a clear and useful reference when requesting faithful financial information from countries and public sector entities. This has become a powerful tool to gain some sort of influence on the evolution and reform of financial reporting in countries which benefit from financial aids or loans (especially underdeveloped and emerging countries), as well as on public sector entities audited by supranational audit bodies, such as the EU Court of Auditors.

Another important development bringing many actors close to the IPSAB's vision of adopting international standards was the EU decision, to make it a requirement for listed companies in its Member States to report under IFRS since 2005. This was a key point for the success of IPSAS as a worldwide reference for reforming public sector accounting systems. Since then, many countries have decided to move to IPSAS.

### Mobilisation

At the moment, many countries have adapted (or are in the process of adapting) their public sector accounting systems to IPSAS, considering them as a key reference to

produce better financial information. Other countries that have not introduced IPSAS yet have this in their future plans (Brusca et al. 2015). IPSAS have become *de facto* an international benchmark for evaluating government accounting practices worldwide (Chan 2008; PwC 2014). Heald (2010) refers to them when describes ‘the global revolution in government accounting’.

Various studies have been conducted on IPSAS adoption in many countries and three groups of countries can currently be differentiated within the EU context (Christiaens, Reyniers and Rollé 2010; Ernst and Young 2012; Bellanca and Vandernoot 2014; PwC 2014 and 2015; Brusca et al. 2015; Christiaens et al. 2015; Jones and Caruana 2016; Association of Chartered Certified Accountants 2017; Argento, Peda and Alexander 2018)<sup>2</sup>:

1. Countries that applied IPSAS or have standards similar to IPSAS: Austria, Czech Republic, Estonia, Ireland, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Spain, Sweden and United Kingdom.
2. Countries that plan to adopt IPSAS: Cyprus, Hungary and Italy.
3. Countries that have not yet begun to implement reforms to adopt IPSAS: Belgium, Bulgaria, Croatia, France, Denmark, Finland, Germany, Greece, Luxemburg, Netherlands and Slovenia.

More recent literature in the field (Brusca et al. 2015; Manes Rossi et al. 2016) contains several references to these standards as the most probable to achieve international acceptance. What does not seem so evident is how countries should introduce them into national legislation, as a public policy. Should international standards replace national standards or could they co-exist for different purposes (Manes Rossi et al. 2016)?

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<sup>2</sup> This classification disregards the level of government.

Another question is whether IPSAS should be directly applied or is it more convenient to adapt national standards to the international pronouncements. The latter is in fact the procedure that is most common at the moment. In the case of the EU, the European Commission decided that the best option would be to develop EPSAS based on the IPSAS (Aggestam and Brusca 2016). It considers that ‘the IPSASs represent an indisputable reference for potential EU harmonized public sector accounts’ (European Commission 2013: 8). Therefore, the EU supports the international standards, even though the IPSASB is a private body that has no mandate in the EU context. However, there are some countries that have adopted IPSAS directly, such as Malta ((Jones and Caruana 2016; Association of Chartered Certified Accountants 2017).

The fact that public sector accounting standard-setter members acknowledge IFRS (non-human actor), as they are professionals (human actors) in business accounting and auditing too, have also been mobilisation factors towards IPSAS diffusion.

## **Translating IPSAS to Spain and Portugal**

### *Methodological Issues*

This paper addresses how IPSAS are seen and have been considered by both the Spanish and Portuguese public sector accounting standard-setting bodies, in the public policy taken to reform the existent public sector accounting national systems.

It combines analysis of policy documents and review of legislation with two short questionnaires to the standard setters. The data has been triangulated to get the full picture of the adoption and implementation of an IPSAS-based system.

More specifically, attention was focused on the moments when ideas about implementing IPSAS begin to shift in the standard-setting debate. Therefore, the analysis considered official reports, events, legislation and government programs that preceded the regulatory adoption of IPSAS by the standard-setters, who in both

countries have been the main actors (accounting policy makers) in the public policy to reform public sector accounting.

In order to understand the standard-setters' perceptions, two questionnaires were used, in different moments (Gillham 2008). The first (quantitative) contained closed questions about the perceived importance (using a 5-level Likert scale) of different reasons for, and advantages of, adapting the existing systems (PGCP/POCP) to IPSAS. The second one (qualitative) was made up of open questions, essentially about the driving forces leading to the decision of embarking in IPSAS, the main challenges, and the benefits already perceived or expected with the new IPSAS-based public sector accounting system<sup>3</sup>.

The survey was carried out at middle 2016. The questionnaires were sent to the chairs of both standard-setters, who in turn decided how to reply. From Portugal seven answers were received (out of a possible total of nine members); from Spain, a single answer was received, with an additional statement explaining that it represented the view of the whole group.

Whereas the first questionnaire allowed gathering the reasons found most important for the change of public sector accounting policies, the second one was used to interpret the perceptions of the why and how the changes were considered, using some quotes from the responses.

Overall, the paper applied qualitative content analysis and descriptive frequencies on the quantitative analysis (Miles and Hubermann 1994; Patton 2002; Ryan, Scapens and Theobald 2002).

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<sup>3</sup>The second questionnaire was inspired by IPSASB's publications "*A Closer Look At*".

*The Reform Process and the Adoption of IPSAS (The problematization and interessement)*

As in other continental European countries, in the Iberian countries there is a strong legalistic tradition and the administrative law model has always been dominant for the functioning and reform of the public sector (Lüder and Jones 2003). Legislative reforms have been the main support of the government for the implementation of the (public sector) accounting reforms.

In Spain, the body responsible for issuing public sector accounting standards is the *Intervención General de la Administración del Estado* (IGAE), a department of the Ministry of Economy and Finance, which is also responsible for the internal and financial control of the national government and its accounting process. In this department, there is a Section for Accounting Standardisation that prepares the chart of accounts for the public sector and its further developments at central and local government level. Consequently, the final decision on the accounting standards to be issued is taken by this department, where the main responsible is the *Interventor General* (Comptroller and Auditor General). This leads to an increased tendency for the rapid diffusion of accounting standards across the Spanish public (and business) sector as changes in standards are only dependent on government fiat.

In Spain, IGAE has the responsibility to pass a General Chart of Accounts and then prepares adaptations for specific governmental entities, such as central government or local government. The IGAE has no jurisdiction over regional government accounting, but regional governments have progressively adapted their accounting regulations to those issued by IGAE. All in all, the legal framework of finance, budgeting and accounting is very uniform and homogeneous in the three levels of government across the country.

The Spanish Public Sector Chart of Accounts develops the accounting principles and specific standards to be applied and provides a description of the bookkeeping rules, as well as the models of financial statements to be prepared on an annual basis. This makes the whole process more inflexible.

The Spanish public sector accounting system has always been based on the business accounting model, although it includes adaptations for the public sector. Since its origins, public sector accounting has considered standards in the business sector as a reference point. The introduction of financial accounting and accrual basis dates from the 1980s, and the intention was to translate the business accounting model into the public sector.

In Portugal the first Public Sector Chart of Accounts (POCP) was prepared by a special group of experts and passed and approved by a Ministry of Finance decree in 1997, having the Spanish one as the main inspiration, as well as the existent business chart of accounts. It brought public sector accounting close to business accounting, introducing financial and cost accounting under the accrual basis regime, together with cash-based budgetary accounting. Through this Decree-Law 192/97, the first public sector accounting standard-setter commission was created, with the main mission of monitoring the implementation of this framework. By 2012, within a major reform of the organizational structure of the Ministry of Finance, this commission was disbanded and a new decree was passed redesigning the accounting standard-setter role in Portugal. The accounting standard-setting commission (*Comissão de Normalização Contabilística – CNC*) in its current form, was created and is regulated by Decree-Law 134/2012. It is an administratively autonomous independent body, although it was established under the Ministry of Finance; it includes in its membership several stakeholders, from both the private and the public sector, who arbitrate accounting

matters. CNC embraces two committees – one for business accounting and another for public sector accounting, the *Comité de Normalização Contabilística Pública (CNCP)*. CNCP has nine members, representative of the institutes for accountants and auditors, the General Budget Department, Local Government General Department, Finance Inspection Directorate, National Institute of Statistics, Universities and Polytechnics teaching accounting, and an independent member acknowledged as an expert. The main competency of CNCP is to issue public sector accounting standards and interpretations taking IPSAS as reference, as well as to contribute for its development, implementation and improvement.

One thing both the above standard-setters have in common is that, despite their administrative independence, they work under the Ministry of Finance, which is ultimately the entity responsible for the issuance of public sector (as well as business) accounting standards in the form of law. Therefore, the standard-setters work on the proposals of standards that are firstly internally approved by a General Board, and then presented to the Ministry of Finance, which ultimately will decide whether to pass those proposals to legal decrees or orders or not, as with any other legal framework regulating public policies. Consequently, in the Iberian countries, within the Continental accounting tradition, accounting standards assume legal form, making changing it more difficult as it implies a bureaucratic process of revoking the law. Accordingly, compared to the reality of Anglo-Saxon common-law countries where the influence of professionals in accounting policy-making is high, in the Iberian countries professional influence is much lower and standard-setters work for the governments who sanction their actions (Brusca and Condor 2002).

Table 1 summarises the main stages of the reforms in both countries, in the last decades.

**Table 1: Main stages of the public sector accounting reforms: Spain versus Portugal**

Spain		Portugal	
<b>1977</b>	General Budgetary Law 1977 (First step for accounting modernization).	<b>1989-1992</b>	State Financial Management New Regime: <ul style="list-style-type: none"> <li>- Revision of the Constitution (1989)</li> <li>- Public Sector Accounting Basis Law (1990)</li> <li>- New Budget Framework Law (1991)</li> <li>- Regulatory law of the State Financial Management (1992)</li> </ul>
<b>1981</b>	First Chart of Accounts for Public Sector (provisional version).	<b>1993-1996</b>	Several draft sectorial Charts of Accounts – for Health, Social Security and Higher Education. In the local government – a Chart of Accounts for municipalized business units ( <i>Serviços Municipalizados</i> ).
<b>1983</b>	First Chart of Accounts for Public Sector (definitive version).		
<b>1985</b>	First accrual financial statements for central government.		
<b>1990</b>	First Chart of Accounts for the local government.		
<b>1992</b>	First accrual financial statements for local government.		
<b>1994</b>	Reform of the Chart of Accounts to adapt it to the business sector Chart of 1990.	<b>1997</b>	Chart of Accounts for Public Sector– POCP (generalised accrual financial accounting and reporting).
		<b>1999</b>	Chart of Accounts for Local Government (POCAL).
<b>2004</b>	Reform of the Chart of Accounts for local government adapting it to 1994 Chart.	<b>2000</b>	Chart of Accounts for the Education Sector (POC-E). Chart of Accounts for the Health Sector (POCMS).
		<b>2002</b>	Chart of Accounts for the Entities of the Social Security System (POCISSSS).
<b>(2007)</b>	(Business sector accounting adapted to IFRS – new Business Chart of Accounts, starting implementation in 2008).	<b>(2009)</b>	(Business sector accounting adapted to IFRS – SNC, starting implementation in 2010).
<b>2007</b>	The IGAE created a group to discuss the new public sector accounting, aiming at adapting the existent Chart of Accounts for public sector to the business Chart of Accounts and to IPSAS.	<b>2012</b>	New accounting standard-setter appointed, with new governance model: <ul style="list-style-type: none"> <li>- Redesigned role in the standard-setting process;</li> <li>- Participation of several stakeholders;</li> <li>- Specific committee for public sector accounting;</li> <li>- More responsibility in the standard-setting.</li> </ul>
<b>2008</b>	First draft of the Chart of Accounts for the public sector, taking into account the Chart of Accounts for the business sector.		
<b>2010</b>	Reform of the Chart of Accounts to adapt it to the Business Chart of Accounts, reformed in 2007, and to the IPSAS.	<b>2015</b>	<ul style="list-style-type: none"> <li>- New Budget Framework Law (2015), acknowledging accrual-based financial accounting statements, along with budgetary statements, as making part of the whole reporting system of Public Administrations.</li> <li>- Reform of the Chart of Accounts to adapt it to IPSAS (implementation starting in 2018) – System of Accounting Standards for Public Administrations (SNC-AP) – embracing a simplified regime for small public sector entities.</li> </ul>
<b>2013</b>	- Reform of the Chart of Accounts for local government adapting it to 2010 Chart. Compulsory since 1 January 2015.	<b>2016</b>	Creation of UniLEO, as a unit within the Ministry of Finance that would be in charge of the dissemination and implementation of SNC-AP.
	- New standards for consolidated accounts	<b>2017</b>	Dissemination strategy for SNC-AP.



Spain		Portugal	
	for central government.		

In Spain the reform in business accounting started a new process for the reform in public sector accounting, leading to the new IPSAS-based Chart of Accounts in 2010.

In Portugal, the existent public sector Chart of Accounts (POCP) lost its conceptual basis after the changes in business accounting. Additionally, despite overall guidance to prepare consolidated accounts by public administration entities referring to IPSAS (Order 474/2010), there were still problems in preparing consolidated accounts, since governmental business entities were already part of the new IFRS-based business accounting system. Finally, the financial crisis and the bailout programme, raised issues concerning the insufficiency of the existent system to account for certain transactions as well as to report about the true financial position and risks of public sector entities and of the government as a whole. The lenders in *Troika*, especially the International Monetary Fund (IMF), required IPSAS to be adopted (Law 64C/2011), so the works of the CNCP to adapt POCP to IPSAS started in March 2013. The new SNC-AP was passed in September 2015, embracing a conceptual framework, a chart of accounts and 27 accounting standards (25 IPSAS-based addressing financial accounting and reporting, 1 for budgetary accounting and reporting and 1 concerning management accounting). It is to be applied to all sectors of the public administration, including local government. Some other countries' frameworks (e.g. from Brazil, Spain and France) were also taken into consideration for the development of SNC-AP.

The approach of IPSAS towards IFRS has been a keystone for the success of IPSAS as a reference for reforming Spanish public sector accounting. The newest Chart of Accounts echoes the importance that these standards have gained at the international level and especially in international organizations, and mentions as an example the

adoption of IPSAS in the UN General Assembly. It is therefore used as a justification for their consideration in the Spanish context.

In Portugal, public sector accounting has also followed what has happened in the business sector, but another important factor has been the financial crisis and lenders requirements, namely established by the *Troika*. There was also an internal need to have a more complete accounting system. The actual SNC-AP, at the same time as adopting IPSAS and endorsing internal and international harmonization, included several adaptations to the Portuguese reality, namely restricting some options allowed by the IPSAS and creating three particular standards on budgetary accounting and reporting, management accounting and a simplified financial accounting regime for smaller entities.

#### *The Enrolment and Mobilisation of the Iberian Countries towards IPSAS*

In the following analysis, a comparative-international perspective will be considered (Hantrais 2009). Portugal and particularly Spain are amongst the first IPSAS adopters within EU Member States; therefore, important advice can be derived from the experiences of these countries.

As it becomes clear from above, the two countries are at different stages of adapting their public sector accounting systems to IPSAS – Spain has already been implementing them since 2010, so the new system is reaching some form of establishment and consequences in public sector entity accounts have started to be visible; while Portugal just recently passed the main legislation and is only now starting implementation. These different positions certainly influenced the answers offered by the two countries' standard-setters.

The documentary analysis evidenced the following:

- In Portugal, IPSAS started to be referred to in 2010 (Order 474/2010), in face of the lack of guidance for the purpose of preparing public sector entity consolidated accounts. Then, the Memorandum of Understanding with *Troika* highlighted the need for an overall ‘strengthening [of] the public financial management framework’ by ‘strengthening risk management, accountability, reporting and monitoring’ (section 3). Consequently, the Portuguese government, in the Document of Fiscal Strategy 2011-15, started assuming a commitment to extend the POCP with accrual-based financial accounting to all public sector entities; additionally, it acknowledged the need for budgetary and financial reporting across the whole of the public administration to ‘use the same principles, methods and measurement criteria as with the rest of the economy, and that should follow [...] the international accounting standards’ (pp.43-44).

Law 64C/2011 defined the steps to implement the commitments in the strategic plan. Section 5.2.4 clearly states that ‘within the scope of the Financial and Economic Supporting Program, the adoption of IPSAS was suggested for the financial accounting and reporting of public sector entities’.

Finally, Decree-law 134/2012 established competences and governance of the new accounting standard-setter (CNC), explicitly referring to the adaptation of the existing public sector accounting system to IPSAS.

- In Spain, in 2006 the Supreme Audit Institution proclaimed that a public sector accounting reform was necessary to ensure the homogeneity among different levels of government, and for different entities within the public sector. After the approval of the new Chart of Accounts for the business sector, based on IFRS, the government decided to adapt the public sector accounting system to this new framework, taking also the opportunity to adapt it to IPSAS, due mainly to the

scarce differences between IPSAS and IFRS. A Commission to discuss the draft prepared by the government was created and there was acceptance of IPSAS as reference to the national standards.

Complementarily, the results of the questionnaires are summarised below.

About the main reasons to adapt the existent system (PGCP/POCP) to IPSAS, the standard-setters in both countries indicated: the need for international harmonisation; the fact that the business accounting frameworks (PGC/POC) had already been adapted to IFRS, so harmonisation between public sector and business accounting would be achieved; the fact that IPSAS have gained legitimacy in the international context; and because, in this way, the countries would be aligned with the international context. However, in general, the answers of the Portuguese standard-setter were more conservative (given lower importance in the scale) than those of the Spanish one.

Therefore, a common trend can be identified, given that the reasons found more important by both standard-setters relate to international harmonisation issues, as well as to the fact that the business accounting system was already adapted to IFRS.

As to other reasons impelling IPSAS adoption, while in Spain a need for comparability with the business sector was referred, in Portugal the external imposition by the *Troika* (namely the IMF) due to the financial crisis was underlined, which ultimately led to the government decision of embarking on the reforms.

The Portuguese respondents evidenced:

«Before the financial assistance programme, in 2010, the Government raised the need to adapt the public sector accounting framework to IPSAS (Order 474/2010). With the financial assistance programme, led by the IMF, EC and the ECB [*Troika*], public

financial management reforms were envisaged, being the accounting reform, based on IPSAS, one of the elements».

«...there was a certain imposition from IMF, given the fact that Portugal was under bailout and the funders acknowledged that the existent public sector accounting system was not enough to report an accurate financial situation».

In what respects the major challenges to be faced, standard-setters in both countries referred to civil servants training and software adaptation. In particular, one Portuguese respondent referred to changes in public entities' management, and the requirement for public sector entities' accounts (namely at central government level) to be audited (financial auditing for compliance with the standards). He also referred the possibility of creating a new entity within the Ministry of Finance to supervise and provide guidance on the implementation of public sector accounting reforms as a challenge, which came to be created at the end of 2016 (UniLEO), with the main mission of monitoring the implementation of the reform of the public financial management system overall.

In addition, the Portuguese also underlined that:

«Financial costs, although not calculated, are expected not to be high, since accrual accounting systems already work in the entities».

In neither of the countries, there has been support from IPSASB, although Portugal has received some technical assistance from the IMF, particularly relating to reporting issues<sup>4</sup>.

Regarding the benefits of adopting IPSAS, the Spanish respondent suggested that IPSAS will make the central government accounting system more informative and will increase the possibility of comparing financial reporting of different levels of government. On the other hand, the Portuguese standard-setter stated that an IPSAS-

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<sup>4</sup> One particular matter supported by the EUROSTAT was the creation of the "State" as a reporting entity, creating conditions to the future preparation of Whole of Government Accounts (WGA).

based system will allow: increased transparency and accountability, rigour and accuracy of public sector accounts; the National Accounts to be prepared from the subsystem of financial accounting; the preparation of Whole of Government Accounts (WGA); the improvement of public financial management; to facilitate external auditing; and to facilitate public sector accounting teaching, researching and publishing by academics.

One Portuguese respondent pointed out:

«... expected improvements in the quality of financial and budgetary reporting, hence better financial information for accountability and decision-making at large, also enhancing transparency in public sector accounts. Better accounts would allow governments and investors to better assess the country's financial condition and sustainability. Risk can be better assessed, decisions (including of public policy) better supported and interest rates may decrease».

In turn, the Spanish respondent highlighted:

«The information that the system provides is in line with the business sector and international standards, so this is more convenient to achieve comparability in the international field [...].

Change in the accounting processes for infrastructure assets, so that now the information is in the balance sheet. It can be said that now we have more information that allows improvements in the control of assets and liabilities».

The above reported findings evidence that the standard-setters in both countries, in spite of not having received any support from the Board, have been convinced by the discourse of the IPSASB. Therefore, the enrolment towards IPSAS, according to ANT (Callon 1986), has worked effectively in Spain and Portugal. In fact, the standard-setters believe IPSAS will increase public sector financial information transparency, accountability, rigour, accuracy and international comparability, improve public

financial management, and make external auditing easier. Furthermore, reinforcing this enrolment, results showed that IFRS, WGA and the National Accounting framework have been very important non-human actors in the process.

Finally, the actors within *Troika*, already enrolled in the IPSAS network, were able to successfully mobilise the Portuguese government, hence the Portuguese standard-setter, to the process.

## **Conclusion**

The analysis of the international context shows that a network has been created for the adoption of IPSAS, providing the standards with identity and legitimacy and, as a consequence, high influence.

This study provides empirical support for this observation, primarily drawn from document analysis completed with questionnaires to the Spanish and Portuguese public sector accounting standard-setters, highlighting how both countries have been enrolled in the IPSAS network.

The main actor in the network has been the IPSASB, who started to issue IPSAS with the aim of achieving the comparability of financial reporting in the international field. It has tried to persuade other actors, such as international organizations and standard-setters of different countries.

IPSASB has developed an active policy persuading national governments and international organizations to achieve real Government Generally Accepted Accounting Practices (GGAAP) and IPSAS identification. Also because they have been deriving and converging with IFRS, IPSAS have been able to impose themselves as a legit international reference for public sector accounting, following a process in accordance with the ANT framework.

Consequently, many countries around the world have been adapting IPSAS; Spain and Portugal are among these countries.

An important human actor in the process of enrolment in IPSAS by both Iberian countries, have been the public-sector accounting standard-setters. Evidence in this paper shows that standard-setters have been effectively convinced to enrol in the IPSAS network, enhanced by the support of other human and non-human actors: professionals in business accounting, members participating in the standard-setting process and acknowledging the importance of international standards; IFRS (in which IPSAS are based), WGA (to the preparation of which IPSAS are believed to be a key instrument), and National Accounts (which IPSAS are deemed to be developed in convergence with).

In Portugal, an additional factor gave impetus to institutional and legal changes towards IPSAS – the financial crisis and the fact that the country was under bailout from 2011 to 2015, and the lenders considering that the existent public sector accounting system was not enough to report an accurate financial situation. In response to this situation, the Portuguese Government was pressured by lenders (known as *Troika*) for the introduction of international practices of public sector accounting, namely IPSAS, as a public policy. International organisations within *Troika*, were already enrolled in IPSAS; in fact, they are among the financiers of IPSASB, so their attitude is towards legitimise and mobilise allies to the IPSAS network.

Many people involved in public sector management agree that governmental accounting must approach the standards of IPSASB (ICGFM 2013). Furthermore, it is true that overall, national reforms in public sector accounting move towards the introduction of accrual accounting and the accounting practices generally accepted in



the business sector. The approximation of different public sector accounting systems to IPSAS is a stimulus to international harmonisation in public sector accounting.

All in all, these standards are currently the most relevant factor in the realm of international accounting standards for public sector entities, given that the other variables traditionally considered when analysing international accounting harmonisation, such as capital markets, have not really worked as useful tools in terms of public sector financial reporting.

Standard-setters in the Iberian countries have acknowledged this importance and the role of IPSAS in reforming their public sector accounting systems: whereas Spain seems to be already perceiving the benefits of adopting the PGCP to IPSAS, Portugal is at a stage that can be said of ‘optimistic expectation’ with the SNC-AP. Understanding the process by which, in practice, these countries have adhered to IPSAS has important implications to other countries still wondering about embarking in public sector accounting international harmonization – they might be better prepared, either to enter or to resist the process.

This paper contributes to the literature with an application of the concept of translation to explain IPSAS adoption, in order to analyse how the process has been constructed, who have been the participants, and how has this participation occurred, in the case of Spain and Portugal. Accordingly, the research also attempts to understand, in practice, the process by which countries adhere to IPSAS. Finally, it contributes to the field of comparative-international studies, where there is scarce literature.

One limitation to be highlighted regards the difficulty in apprehending how the eventually different profiles of standard-setter members, reflect their enrolment and mobilization, hence possibly affecting the whole IPSAS translation into the national standards.

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